BEFORE THE ARIZONA CORPORATION COMMISSION

WILLIAM A. MUNDELL
CHAIRMAN
JIM IRVIN
COMMISSIONER
MARC SPITZER
COMMISSIONER

IN THE MATTER OF THE GENERIC PROCEEDINGS CONCERNING ELECTRIC RESTRUCTURING ISSUES.	Docket No. E-00000A-02-0051
IN THE MATTER OF ARIZONA PUBLIC SERVICE COMPANY'S REQUEST FOR A VARIANCE OF CERTAIN REQUIREMENTS OF A.A.C. R14-2-1606.	Docket No. E-01345A-01-0822
IN THE MATTER OF THE GENERIC PROCEEDING CONCERNING THE ARIZONA INDEPENDENT SCHEDULING ADMINISTRATOR.	Docket No. E-00000A-01-0630
IN THE MATTER OF TUCSON ELECTRIC POWER COMPANY'S APPLICATION FOR A VARIANCE OF CERTAIN ELECTRIC COMPETITION RULES COMPLIANCE DATES.	Docket No. E-01933A-02-0069
IN THE MATTER OF THE APPLICATION OF TUCSON ELECTRIC POWER COMPANY FOR APPROVAL OF ITS STRANDED COST RECOVERY.	Docket No. E-01933A-98-0471

RUCO's PROPOSED ISSUES FOR TRACK B

1. **Will a least-cost planning be adopted for the evaluation of all competitive bids? If not, how will the bids be evaluated? Will a least-cost planning framework be used to evaluate the benefits of more transmission given the location of existing and planned generating units?** A least cost planning framework is essential given the need to compare the costs of each bid to the others in the context of existing generating

units that will remain under rate regulation. Least cost planning requires use of a dispatch model so that the number of hours per year that each resource bid will operate can be calculated, taking the dispatch of the existing ratebased units into account. Then the fixed costs in each year for each bid can be spread over the number of hours that that resource would operate in order to derive the total cost per kwh in that year for each bid. Then, the lowest cost set of bids can be chosen when analyzed over an appropriately long planning period, e.g. 20 years, on a present value basis. A least cost planning framework will allow the determining of the best mix of peaking, cycling, and baseload resources. Peaking resources are those that have relative high variable costs per kwh, and low fixed costs per kw. Baseload resources are those with relatively low variable costs per kwh, and relatively high fixed costs per kw.

2. **Assuming a least-cost planning framework is adopted, will demand-side management (energy conservation and load management) options and other supply options be allowed to compete as alternatives to fossil-fired generation?** Usually, this is done to allow the lowest cost options for consumers to be selected.
3. **How will the need for local transmission upgrades for proposed projects be handled? Will those costs be directly assigned to each bid, as appropriate, or will those costs be just included as general transmission costs?** Some decision rule is needed for how much of these costs will be allocated directly to new power plants as part of their bids.
4. **How large a supply of IPP power available and accessible to the Arizona wholesale market is likely to exist in each year, 2002-2004?** (We need to know which plants are definitely going to be built. These plants could, then, be considered to be "existing units" for analyzing market power and transmission system related issues. Presumably, after 2004, new projects could be brought on-line if they won a bid.) **What**

transmission constraints could be cost effectively relieved to bring in more power from outside the state in this same timeframe 2002-2004?

5. **Will the RFP used to solicit competitive bids specify the range of potential resources needed, such as peaking, cycling, and baseload resources? Will other operating characteristics desired be specified, such as ramp-up rates or a maximum on outage rates? Will the fuel costs be an automatic pass-through to ratepayers? Who will purchase the fuel, the existing utilities? What will the penalties be for various types of non-performance?**

6. **How will the potential for the exercise of market power be assessed for competitive bids, in order to determine whether or not the bids are reasonably competitive? Will any bids be excluded if not competitive? Will there be a price ceiling for bids to exclude bids tainted with market power? If there are not enough competitive bids, will there be a re-bid? Will the utilities be obligated to calculate a price baseline derived from a least cost plan consisting of self-built generation at regulated prices in order to determine if the "competitive" bids are likely to save ratepayers money?** As recommended by Dr. Rosen in his APS case testimony, each utility should be required to determine the cost of a construction plan consisting of all new generating units built under rate regulation, as would be traditional. Then, if the wholesale market bids come in lower than the costs of any of these new units, the market bids could be accepted. Thus, ratepayers would reap the benefits of the least cost resources available from either the competitive market or from those that could be built by the local utility.

7. **How will the potential impact of the new bid facilities and the divested facilities on market power for the regional wholesale market be addressed? With which type of generating facilities could market power most easily be exercised, peaking, cycling, or baseload facilities? Could the outcome of the bidding process**

negatively impact wholesale market prices in the future, e.g. if one generation owner is awarded contracts for too many megawatts of power? Would limits have to be placed on the maximum numbers of megawatts of peaking, cycling, and baseload capacity that any given owner would be able to bid into different regions and sub-regions (load pockets) of Arizona? This would almost certainly have to be done, particularly in load pockets, which would be a real problem when it came to limiting bids from Pinnacle West's existing units, if these units are divested from APS.

8. **How will an analysis be performed of the extent to which transmission constraints limit the number of megawatts of new generation that can be bid (and built) in different regions of Arizona?** Note that enough capacity at any moment must be left free on each transmission line to preserve system reliability in case a generating unit that is on-line goes down on an outage. In the East this is called "capacity benefit margin". Note also that in Colorado, transmission planning is done simultaneously with generation planning, as part of the IRP/least cost planning process. The utilities indicate preferred locations where new IPP plants should be built.

9. **How will bids by utility affiliates be evaluated relative to other IPP bids? Will an independent third party be hired by the utility or by the ACC to perform this evaluation? Who will negotiate the contracts with a utility affiliate if they win one or more bids? Who will negotiate the non-affiliate contracts if the utilities bid?**

10. **Will the ACC review every wholesale contract resulting from the bidding process for prudence? How will such a hearing process be structured? Would the review and/or approval process for each contract be fully integrated with the least cost planning process itself, or would a separate prudence review be necessary?** (Note – In Colorado, for example, once the IRP or least cost plan is approved, this implies that all contracts are prudent.) **Given the time required for a sound least-**

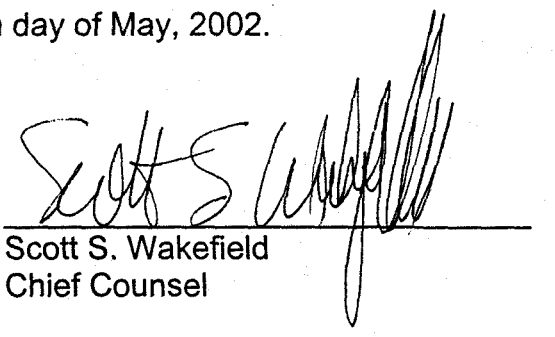
cost planning process, which could last almost one year, do the utilities need to acquire some near-term capacity separate from the first round of this process in order to meet near-term reliability requirements, perhaps for 2003? (Perhaps the first year for which bids can realistically be selected is 2004.)

11. **What level of a planning reserve margin will be set in order to preserve system reliability? Will it be the same for all Arizona utilities, or will it vary? How will this process be structured? Will the required reserve margin include some contingency for extreme weather events or for power contract non-compliance? How will this reserve requirement mesh with the WECC requirements?**

12. **If the WestConnect RTO is approved by FERC in some form, how will this affect the bidding process and the least-cost planning process generally?**

13. **What process will be established to evaluate the bidding process so that improvements can be incorporated into future solicitations?**

RESPECTFULLY SUBMITTED this 13th day of May, 2002.



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By Linda Reeves
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